

**REPORT OF THE
FINANCIAL EXAMINATION OF
OLD MISSOURI MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2007**



FILED
DEC 31 2008
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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October 9, 2008
Nixa, Missouri

Honorable Linda Bohrer, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Acting Director Linda Bohrer:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

OLD MISSOURI MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 357 Mt. Vernon (P.O. Box 367), Nixa, Missouri 65714, telephone number (417) 725-3811. This examination began on July 14, 2008, and was concluded on July 17, 2008, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2001, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Comments – Previous Examination

Comment: It was recommended the Company request approval for its stock, annuity and real estate investments.

Company Response: The Company submitted a written request for approval with the DIFP and received the requested approval in a letter from the DIFP dated July 1, 2002.

Current Findings: The Company obtained the recommended investment approvals.

Fidelity Bond and Other Insurance

Comment: It was recommended the Board of Directors review the appropriateness of the Company paying the insurance on the President's office. The Company's new office building appears to have adequate space for the President's office.

Company Response: The Company agrees the President should pay the insurance on his office and corrected the practice at the next policy billing cycle.

Current Findings: The Company no longer pays insurance on the President's office.

Reinsurance

Comment: It was recommended the Company amend its current cooperative agreement to include a hold-harmless clause which would indemnify the Company from any and all liability, losses, or damages which the Company may suffer as a result of claims, demands, costs or judgments arising from insurance provided under the cooperative plan.

Company Response: The Company noted that reinsurer was unwilling to add the hold harmless language to the agreement.

Current Findings: The hold-harmless language was not added to the agreement; however, the agreement was terminated during the examination period and is no longer in force.

Accounts and Records

Comment: It was recommended the Company diversify its certificates of deposit and cash balances such that no one institution has deposits in an amount greater than that protected by the FDIC.

Company Response: The Company has diversified its investments.

Current Findings: The Company's investments are adequately diversified and do not materially exceed insured limits.

Accounts and Records

Comment: It was recommended the Company submit any mortgage loan agreement to the Missouri Department of Insurance for prior approval.

Company Response: The Company obtained approval for the mortgage loan from the DIFP.

Current Findings: The Company obtained the proper approval from the DIFP for the mortgage loan investment.

HISTORY

General

The Company was originally organized and incorporated on August 12, 1922, as Farmers Mutual Insurance Company of Dallas County. In March of 1990, the Company changed its name to Old Missouri Mutual Insurance Company. On January 1, 2003, the Company was merged with Farmers Mutual Fire Insurance Company of Worth County, with the Company being the surviving entity.

The Company has a Certificate of Authority dated June 7, 2004, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Thursday in January at the home office of the Company, or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called at any time and shall be called upon petition of one-fourth of the members. Eight members shall

constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every other month, and directors are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Judy Hadsall 818 North Benton Springfield, Missouri	Credit Union President	2005-2008
J.T. Magness 1738 South 20 th Street Ozark, Missouri	Attorney	2006-2009
Brenda Sims 724 Meramec Nixa, Missouri	Insurance Agent	2005-2008
Joe Peebles 3465 State Highway N Clever, Missouri	Retired	2006-2009
Joe Flood P.O. Box 2252 Nixa, Missouri	Insurance Agent	2007-2010
David Thornton 5191 East Farm Road 122 Springfield, Missouri	Paralegal	2007-2010

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2007, were as follows:

Judy Hadsall	President
J.T. Magness	Vice-President
Keith Rollings	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of

interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no significant conflicts were noted in these disclosures.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company has coverage under a fidelity bond on which its management company, Nixa Farmers Mutual Insurance Company, is a named insured. The bond provides a limit of liability of \$500,000, with a \$5,000 per loss deductible. The fidelity bond coverage meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$150,000 and \$175,000 in coverage.

The Company carries directors and officers liability coverage with an aggregate limit of \$2,000,000.

The Company utilizes only independent agents, who are required to obtain and furnish documentation of errors and omissions insurance coverage.

The Company has a businessowner's policy that provides property and general liability coverage for the Company's former home office, which is currently owned by the Company.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company does not have any employees. Employee services are provided to the Company by Nixa Farmers Mutual Insurance Company (Nixa Mutual) under an administrative services agreement. Under the agreement, Nixa Mutual provides essential services such as underwriting, marketing, policy and claims administration, accounting and investment services to the Company. In return for the services provided, the Company pays Nixa Mutual an amount equal

to 6.95% of the Company's monthly written premium.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the DIFP as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by approximately 68 licensed agencies. The agencies receive commissions of 15% of written premium.

Policy Forms and Underwriting Practices

The Company uses AAIS and Company policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspection and adjusting services are provided by Nixa Farmers Mutual Insurance Company under the provisions of the aforementioned administrative services contract.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted <u>Assets</u>	<u>Liabilities</u>	Gross <u>Assessments</u>	Gross <u>Losses</u>	Investment <u>Income</u>	Underwriting <u>Income</u>	<u>Net Income</u>
2007	\$ 713,845	\$ 55,848	\$1,188,164	\$ 673,046	\$ 13,567	\$ 37,681	\$ 59,360
2006	658,935	60,301	1,170,755	685,775	13,251	(65,598)	(51,870)
2005	644,897	2,544	1,428,400	426,093	7,957	241,100	249,782
2004	523,132	137,858	1,976,475	1,733,051	(23,198)	(621,508)	(567,377)
2003	1,022,027	84,049	2,063,704	1,928,696	29,768	(492,739)	(406,624)
2002	1,194,967	90,286	1,304,997	534,801	29,489	45,997	98,890

At year-end 2007, 1,992 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct	\$1,304,997	\$2,063,704	\$1,976,475	\$1,428,400	\$1,170,755	\$1,188,164
Assumed	0	0	0	0	13,717	15,061
Ceded	<u>(217,647)</u>	<u>(413,324)</u>	<u>(482,448)</u>	<u>(500,105)</u>	<u>(274,236)</u>	<u>(240,810)</u>
Net	<u>\$1,087,350</u>	<u>\$1,650,380</u>	<u>\$1,494,027</u>	<u>\$928,295</u>	<u>\$910,236</u>	<u>\$962,415</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 99% of the first \$2,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 99% of the first \$3,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$50,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$150,000 and the reinsurer's limits are \$150,000 for commercial and confinement risks and \$400,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$1,000,000. Risks ceded under the agreement are limited to \$300,000 for commercial and confinement risks and \$550,000 for all other risks. The 2007 premium rate, as a percentage of written premiums, equaled 7.14% for layer one coverage and 2.10% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$325,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,325,000, and the reinsurer's limit is 100% of \$5,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$10,000,000 for the second layer. The 2007 premium rate was \$.1602 and \$.2579 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 70% of the Company's net written premium, with a limit of \$2,000,000. The 2007 reinsurance rate was 4% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The CPA firm of Marberry, Miller & Bales, P.C., CPA's performs an annual audit of the Company's financial statements and prepares the annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2007

Bonds	\$ 100,000
Stocks	68,612
Real Estate	195,561
Cash on Deposit	292,814
Interest Due & Accrued	2,260
Other Assets	54,598

Total Assets	\$ 713,845
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2007

Net Losses Unpaid	\$ 55,848

Total Liabilities	\$ 55,848

Guaranty Fund (Note 1)	\$ 250,000
Other Surplus (Note 1)	407,997

Total Surplus	657,997

Total Liabilities and Surplus	\$ 713,845
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STATEMENT OF INCOME
For the Year Ending December 31, 2007

Net Premiums Earned	\$ 962,415
Other Insurance Income	102,514
Net Losses & Loss Adjustment Expenses Incurred	(703,575)
Other Underwriting Expenses Incurred	(323,673)

Net Underwriting Income (Loss)	\$ 37,681

Investment Income	\$ 13,567
Other Income	8,112

Gross Profit (Loss)	\$ 59,360
Federal Income Tax	0

Net Income (Loss)	\$ 59,360
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2007

Policyholders' Surplus, December 31, 2006	\$ 598,636
Net Income (Loss)	59,360
Rounding	1

Policyholders' Surplus, December 31, 2007	\$ 657,997
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NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Guaranty Fund

The Company understated the guaranty fund required by Section 380.271 RSMo. (Financial Reinsurance Requirements). The amount of guaranty fund per examination was \$250,000, while the amount reported on the 2007 Annual Statement was \$150,000. An examination change was made to increase the guaranty fund by \$100,000, with a corresponding decrease of \$100,000 to other surplus. The examination change had no affect on the total policyholder surplus balance.

EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination change was related to the guaranty fund and resulted in no change to total policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

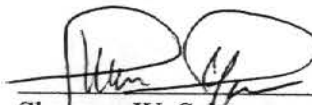
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Old Missouri Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

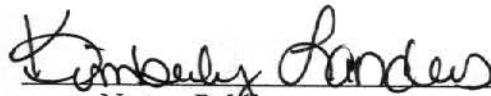
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 20th day of November, 2008.

My commission expires:

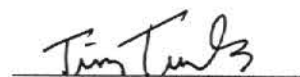
May 18, 2012


Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP